

IMPACT OF LEADERSHIP STYLES ON PERFORMANCE IN SMALL AND MEDIUM-SIZED ENTERPRISES IN MANIPUR

**Mr. Heisnam Lakeshwar Singh¹, Dr. S. Keshorjit Singh²,
Dr. Laishram Prabhakar Singh³**

Research Scholar¹, Assistant Professor², Professor³
Manipur Institute of Management Studies
Manipur University (A Central University) Imphal, Manipur, India

ABSTRACT

This quantitative study examined the impact of leadership styles on the performance of small and medium enterprises (SMEs) in Manipur, India. Transformational, transactional, and passive avoidant leadership were measured as independent variables. Firm performance consisted of sales growth, return on investment (ROI), and growth in the number of employees over the past year. A sample of 197 SME leaders participated in the survey. Correlation and regression analyses tested the relationship between leadership styles and aspects of SME performance. Results demonstrated that transformational leadership had robust, significant positive associations with all three performance measures. Transactional leadership also positively predicted sales growth and ROI. In contrast, passive avoidant leadership could have been more inconsequential or mildly detrimental for SMEs. Together, the leadership styles accounted for 19-24% of variation in firm performance. The findings highlight the crucial role of engaged leadership approaches centred on inspiration, rewards, and modelling integrity for enabling Manipuri SMEs to thrive. Practical implications suggest integrating transformational leadership principles into local entrepreneurship training programs.

Keywords: Transformational leadership, Transactional leadership, Passive avoidant leadership, Performance, SMEs, Manipur

INTRODUCTION

Small and medium enterprises (SMEs) are considered the engine of economic growth worldwide (Gupta et al., 2013). SMEs are essential in employment and GDP and significantly contribute to business establishment (OECD, 2017). However, there are many reasons for SMEs failing to achieve sustainable growth due to various results (Fatoki, 2014). Therefore, it is essential to understand the factors that enhance SME performance.

Leadership is considered one factor that enhances the organisation's performance. Various leadership styles focus on idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration by providing contingent rewards and adopting management by exception (Gyensare et al., 2016). Transformational and transactional leadership styles are considered impactful leadership styles that impact organisational performance (Jyoti & Bhau, 2015).

More research on the potential impacts of leadership on SME performance factors within the Northeastern states of India, such as Manipur, is needed. However, enhancing the productivity and growth of Manipur's SMEs is essential for boosting job opportunities and overall development in the state (Ministry of Micro, Small and Medium Enterprises, 2023). As such, investigating relationships between leadership styles and performance among Manipur's SMEs can offer practical lessons for entrepreneurs while addressing a clear knowledge gap.

LITERATURE REVIEW

The role of leadership styles in influencing the performance of Small and Medium-sized Enterprises (SMEs) has been a subject of considerable research, with studies examining various aspects of this relationship. The literature

presented here encompasses diverse geographical contexts, focusing on countries such as Malaysia, Nigeria, Indonesia, Russia, and Pakistan, offering a comprehensive overview of the impact of leadership styles on SME performance.

The absence of a standardised international definition for SMEs sets the complex discussion of their challenges and opportunities. As defined by the OECD (OECD, 2017), SMEs are characterised by size and scope variations across different national legislations. These enterprises face multifaceted challenges, including limited access to skills, talent, and financing, constraints in importing from abroad, and the lingering effects of the 2007-08 global crisis. Poor management practices and the lack of corporate governance further compound the challenges SMEs face, indicating the complexity of their operational environment (OECD, 2017).

Several studies have explored the impact of leadership styles on SME performance. The research by Tajasom et al. (2015) focuses on transformational leadership and its effects on innovation performance in Malaysian SMEs. The study affirms the positive influence of Transformational Leadership, encompassing idealised influence, intellectual stimulation, and individualised consideration, on Innovation Performance. It introduces perceived organisational support as an essential variable, providing valuable insights specific to the Malaysian SME context.

Aziz's (2013) investigation in Malaysia broadens the scope by examining the relationships between different leadership styles—transactional, transformational, and passive-avoidant—and business performance. The findings highlight significant positive associations between transactional and transformational leadership styles and business performance, while passive-avoidant leadership negatively correlates with performance. The study suggests the prevalence of transactional and transformational leadership styles in Malaysian SMEs, offering a foundation for further research across various industries.

In Indonesia, Uljanati et al. (2021) focus on Embroidery Micro, Small, and Medium-sized Enterprises (MSMEs) in Tasikmalaya. The study explores the simultaneous effects of transformational leadership and organisational learning on organisational performance. While transformational leadership emerges as a significant influencer of organisational performance, organisational learning does not exhibit a similar impact. The study employs a quantitative approach, utilising questionnaires, and interviews, emphasising the importance of leadership in the performance of specific industry sectors.

A study by C. et al. (2012) investigates the effects of leadership styles—specifically, transformational and transactional—on organisational performance in small-scale enterprises. While transactional leadership demonstrates a significant positive effect on performance, the impact of transformational leadership is positive but not statistically significant. The study recommends transactional leadership for small-scale enterprises in Lagos State, Nigeria.

Matzler et al. (2008) explore the relationship between transformational leadership, product innovation, and performance in SMEs. Their study, employing a structural equation model, reveals the positive impact of transformational leadership on innovation, growth, and profitability. Intrinsic motivation is a crucial factor in innovation management within SMEs, highlighting the intricate dynamics of leadership, motivation, and performance.

Elenkov (2002) investigates leadership in Russian companies, emphasising the positive predictions of transformational leadership on organisational performance. The study also acknowledges the contribution of transactional leadership to achieving organisational goals, indicating the relevance of different leadership styles in diverse cultural contexts. Furthermore, the moderating role of support for innovation and the positive relationship between group cohesiveness and transformational leadership underscores the importance of contextual factors in shaping leadership outcomes.

Afriyie et al. (2020) delve into the effects of leadership style, particularly transformational leadership, on innovation and marketing performance in SMEs within an emerging economy. Utilising the resource-based view and structural equation modelling, the study establishes that transformational leadership moderates the relationship between

innovation and marketing performance, shedding light on the intricate interplay between leadership, innovation, and marketing in the context of SMEs.

Pedraja-Rejas et al. (2006) extend the exploration to small companies, examining the influence of transformational and transactional leadership styles on small company effectiveness. The study suggests that while transactional leadership has a negative impact, transformational leadership positively contributes to small company effectiveness. This highlights the relevance of leadership styles in the specific context of small companies.

Baig et al. (2021) focus on the textile sector in their investigation of leadership styles and employee performance. The study identifies the negative impact of laissez-faire leadership and the significant positive impact of transformational leadership on employee performance. Transactional leadership does not exhibit a significant influence, emphasising the need for a nuanced understanding of how different leadership styles impact performance in specific industries.

The study by Emmanuel Ayuba Kuwu and Roselyn W. Gakure (2014) explores the effects of marketing strategies, the 4Ps, and leadership styles on SME performance in Nigeria. The findings reveal a positive relationship between marketing strategies and SME performance, with transformational leadership positively linked to organisational performance in SMEs. The study provides insights for SME managers seeking a competitive advantage in the dynamic Nigerian business landscape.

Lastly, Farooqi et al. (2017) contribute to the literature by examining the impact of leadership styles on knowledge management practices in SMEs in Pakistan. The study reveals that transformational and transactional leadership styles significantly affect knowledge management practices. The positive relationship between transformational leadership and knowledge management practices highlights the role of visionary leadership in fostering a knowledge-driven organisational culture.

The literature reviewed presents a comprehensive overview of the impact of leadership styles on the performance of SMEs across different geographical contexts. The findings highlight the multifaceted nature of this relationship, emphasising the importance of considering contextual factors such as organisational size, industry type, and cultural influences. The studies collectively contribute valuable insights to the existing body of knowledge, paving the way for further research and practical implications for enhancing the performance of SMEs in diverse global settings.

RESEARCH METHODOLOGY

Research Design: This study utilises a quantitative correlational research design to investigate the connections between the leadership styles of managers and the performance of Small and Medium-sized Enterprises (SMEs) in Manipur. The Multifactor Leadership Questionnaire (MLQ-5X) assesses various leadership styles. The performance consists of criteria such as sales growth, return on investment (ROI), and Growth in number of employees.

Variables: Independent Variable: Transformational, transactional, and passive avoidant leadership styles.
Dependent Variables: Performance consists of Growth in sales, Return on Investment (ROI) and Growth in the number of employees.

Sampling: A stratified sampling procedure is utilised to account for the known population size of small and medium enterprises (SMEs) in Manipur and the dispersion of these enterprises across different districts. The Raosoft calculator is engaged to calculate a sample size of 239 small and medium-sized enterprises (SMEs), consisting of 226 small firms and 13 medium-sized firms. Small enterprises are selected using simple random sampling within each stratum (district). Census sampling is employed to include all 13 medium-sized enterprises in the population.

Data Analysis: The analysis uses descriptive statistics to summarise leadership styles and performance characteristics. Multiple regression is utilised to assess the impact of each leadership style on performance indicators such as sales growth, return on investment (ROI), and staff growth.

ANALYSIS

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Transformational Leadership	197	1.15	3.90	2.9622	.56695
Transactional Leadership	197	1.00	4.00	2.7989	.56532
Passive Avoidance Leadership	197	.00	3.38	1.0279	.80100
Sales Growth of the firm	197	1	4	2.96	.450
ROI	197	1	4	2.89	.488
Growth in no. of employees	197	1	4	2.69	.715
Valid N (listwise)	197				

The sample for this study on leadership styles and performance consisted of 197 small and medium enterprise owners and managers from the Manipur region. Three predominant leadership styles were measured - transformational, transactional, and passive avoidant - and three dimensions of firm performance - sales growth, return on investment (ROI), and employee growth.

Results showed that participants exhibited moderately high transformational ($M = 2.96$ out of 5) and transactional ($M = 2.79$) leadership behaviours (Table 1). Passive avoidant leadership was relatively low ($M = 1.02$). This indicates that SME leaders in Manipur tend to adopt transformational and transactional leadership approaches, while passive or laissez-faire behaviours are much less common.

Regarding performance metrics, firms reported moderate sales growth ($M = 2.96$ out of 4) over the past year. The average ROI was 2.89 out of 4, signifying profitable but not maximal returns. Finally, employee headcount grew at a lower rate ($M = 2.69$). There was decent variation across organisations, as evidenced by the standard deviations. The Manipur SME leaders in our sample leverage transformational and transactional leadership, with transformational being slightly more dominant. At the same time, firms achieved reasonable but not stellar growth and profitability this past year. Further analysis will explore whether leadership style differences account for variation in SME performance.

Table 2. Correlation Analysis between Leadership Styles and Performance (Sales Growth, ROI, Growth in no. of Employees)

	Sales Growth	ROI	Growth in no. of employees
Transformational Leadership Style	.475*	.467*	.406*
Sig.	.000	.000	.000
Transactional Leadership Style	.379*	.393*	.369*
Sig.	.000	.000	.000
Passive Avoidance Leadership Style	-.140	-.098	-.131
Sig.	.049	.169	.067

*Correlation is significant at the 0.01 level

Table 2 presents the results of the correlation analysis between the three leadership styles and the three performance measures. It indicates the statistical correlation coefficient between each pair of variables and the significance level to assess if there is a significant association between that leadership style and performance dimension.

- Transformational leadership correlates moderately positively with all three performance measures (Sales Growth, ROI, and Employee Growth). All the correlations are statistically significant as well. This indicates that transformational leadership style has a significant positive linear relationship with higher firm performance.

- Transactional leadership also has significant positive correlations with the performance variables, though the correlation coefficients are slightly lower than those of transformational leadership. This still indicates that the transactional style relates to performance.
 - Passive Avoidant leadership has small, negative correlations showing that this style mildly relates to worse performance. However, the only statistically significant negative correlation is with sales growth. For ROI and employee growth, the negative correlations are non-significant.
- Both transformational and transactional leadership show significant positive links to SME performance across financial outcomes and growth. Passive avoidance leadership weakly relates to lower performance and significantly lower sales. The takeaway is that transformational and transactional leadership styles are most beneficial.

Table 3. Leadership Styles & Sales Growth of the firm

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIP
(Constant)	1.801	.171		10.506	.000*		
Transformational Leadership Style	.304	.062	.383	4.902	.000*	.637	1.569
Transactional Leadership Style	.110	.062	.138	1.764	.079	.635	1.575
Passive Avoidance	-.050	.035	-.088	-1.407	.161	.986	1.014
R	.497						
R ²	.247						
Adjusted R ²	.235						
Durbin – Waston	1.788						
F	21.097				.000*		

*Significance at the 0.01 level
Dependent Variable: Sales Growth of the firm

Table 3 presents the results of multiple regression analysis to evaluate the effects of the three leadership styles in predicting the sales growth performance of SMEs. Here are the key elements:

- Transformational leadership has a significant positive relationship with sales growth (Beta = 0.383, $p < .01$). The positive coefficient indicates that transformational leadership correlates to higher sales growth.
- Transactional leadership also positively predicts sales growth, but the relationship is slightly weaker and lacks statistical significance ($p = .079$).
- Passive avoidant leadership has a slight negative coefficient, indicating an association with lower sales growth. However, this is not a statistically significant effect ($p > .05$).
- The leadership styles account for 24.7% (Adjusted R-squared) of the variation in sales growth among firms. The overall model is significant (F-test $p < .01$).

Transformational leadership style has the most influence, significantly predicting higher future sales growth for SMEs. Transactional leadership may also be beneficial. Enhancing these leadership capacities could meaningfully improve sales performance.

Table 4. Leadership Styles & ROI

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIP
(Constant)	1.589	.187		8.496	.000*		
Transformational Leadership Style	.310	.068	.360	4.575	.000*	.637	1.569
Transactional Leadership	.148	.068	.172	2.180	.030	.635	1.575

Style							
Passive Avoidance	-.027	.039	-.045	-.713	.477	.986	1.014
R	.490						
R ²	.240						
Adjusted R ²	.228						
Durbin – Waston	1.832						
F	20.308				.000*		
*Significance at the 0.01 level Dependent Variable: ROI							

This second regression analysis tests the effects of leadership styles on Return on Investment (ROI) as the measure of SME performance (Table 4).

- Transformational leadership again shows a positive significant relationship, indicating it predicts higher firm ROI values (Beta = 0.360, $p < .01$)
- Transactional leadership has a lower but still statistically significant predictive effect on increasing ROI (Beta = 0.172, $p < .05$)
- Passive avoidant does not have a significant link to ROI.
- The overall model accounts for 24% of the variance in ROI (adjusted R-squared), which means leadership style is an important driver.

Both transformational and transactional styles positively influence return on investment as a financial performance metric for SMEs in Manipur. Enhancing these leadership capacities could benefit profitability and returns. The regression equation demonstrates leadership's impact on the bottom line.

Table 5. Leadership Styles & Growth in no. of employees

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIP
(Constant)	1.036	.281		3.681	.000*		
Transformational Leadership Style	.359	.102	.285	3.524	.001*	.637	1.569
Transactional Leadership Style	.238	.102	.188	2.326	.021	.635	1.575
Passive Avoidance	-.074	.058	-.083	-1.272	.205	.986	1.014
R	.443						
R ²	.196						
Adjusted R ²	.184						
Durbin – Waston	1.853						
F	15.685				.000*		
*Significance at the 0.01 level Dependent Variable: Growth in no. of Employees							

The aim of regression analysis tests (Table 5) is to evaluate if leadership styles significantly predict the growth in the number of employees for the sample of SMEs.

Transformational leadership has a positive regression coefficient (B = .359). This means that for every 1 unit increase in transformational leadership score, the model estimates a .359 increase in employee growth. The standardised beta is .285, indicating a moderate positive relationship. Moreover, most importantly, this effect is statistically significant ($p = .001$).

For transactional leadership, we also see a significant positive regression weight (B = .238, beta = .188, $p = .021$). So, both styles positively impact employee growth.

In contrast, passive avoidant has a negative coefficient, but the relationship is non-significant ($p > .05$).

If we look at the overall model - with all three leadership predictors - it accounts for 19.6% of the variation in employee growth across SMEs. The F-test shows that the model is statistically significant in explaining growth in the number of employees.

There is compelling evidence that transformational leadership and, to a lesser degree, transactional leadership positively and significantly predict employee growth for Manipur SMEs. Developing these leadership capacities could benefit employee recruitment and retention.

RESULT

Transformational leadership positively impacts all aspects of SME performance

The study found that transformational leadership style has a significant positive relationship with all three measured metrics of SME performance - sales growth, return on investment (ROI), and employee growth. This leadership approach uniformly supports better firm outcomes.

Transactional leadership also plays a role in enhancing SME performance

While less impactful than transformational leadership, the transactional leadership style demonstrated significant positive links to three performance dimensions - sales growth, return on investment, and employee growth. This style can also benefit SMEs.

Passive approaches inconsequential or detrimental

In contrast, passive avoidant leadership lacks meaningful positive relationships with SME performance and is occasionally associated with worse firm outcomes. Low engagement hinders rather than helps small and mid-sized enterprises.

CONCLUSION

Small and medium enterprises play an important role in Manipur's economy and often face performance challenges. This study aims to find the implications of leadership styles on performance in SMEs in this region, Manipur. Results reveal that there is a substantial positive influence of transformational and transactional leadership in enhancing firm performance. Specifically, organizations led by managers who motivate employees, communicate vision, provide intellectual stimulation, offer rewards for results, and model integrity witnessed more excellent sales figures, return on investment, and talent expansion over the past year. Leadership focused on engagement versus passivity appears crucial for nurturing successful SMEs in Manipur.

Findings show that there should be more focus on developing more transformational leadership practices; leadership training must be provided in areas like developing inspiration, team development, and communication competencies. Transactional capabilities must also stay sharpened. Additionally, educational institutions in Manipur should evaluate how to integrate courses on transformational leadership principles into management or entrepreneurship curricula.

While more research is needed, the study provides initial evidence that leadership style significantly differentiates firm outcomes for Manipur's small and medium-sized enterprises. Stakeholders aiming for a thriving SME marketplace may benefit substantially from these lessons in practical leadership approaches. The state's future growth could hinge on how well its emerging enterprise leaders mobilise employees via engaged, visionary leadership models centred on authentic human relationships.

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